Foreign Direct Investment is Impoverishing the South

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One of the central assumptions of neo-liberal economics is that the liberalisation of the investment regime is a necessary condition for growth. But is this really true? Does investment liberalisation really bring growth and development?

Investment, to be sure, is an essential ingredient of growth. That is a truism as old as the mountains. One does not have to be an economist to know this. As soon as agriculture became the basis for human development around 800 BC, the homoerectus knew that she had to save the seeds from the previous season as investment for the next. That is age-old conventional wisdom.

But can we say that investment from outside, foreign investment, is an essential ingredient of growth? Is there really a good case for opening up the doors to foreign capital without controls? Is there an unqualified case for the liberalisation of the investment regime? Indeed, to be even more challenging, might foreign investment not be the cause of the opposite of growth? Might it not be a cause of lack of growth, or what some have described as "mal-development"?

The World Council of Churches (WCC) has issued a publication recently titled "An Ecumenical Approach to Financing for Development" prepared by the Ecumenical Coalition of Economic Justice, a project of the Canadian churches. It raises similar questions about FDIs, and advocates a self-reliant method of financing development.

There is much reflective wisdom in what the WCC says: "Where development can be financed at the local community level, without dependence on external funds, it should be. What can be financed nationally should be funded nationally. Over-reliance on external financing leads to dependence and to types of 'mal-development'. Mal-development is characterised by ecologically destructive overconsumption by the wealthy minority and the concentration of power in the hands of private transnational corporations and international financial institutions which exclude the majority of people."

Where, then, did the proposition that FDIs are a necessary ingredient of growth gain such widespread currency in modern times? What is the basis of such a belief? Like most belief systems, is it also not a matter of blind faith? For indeed there is no evidence that FDIs have helped the countries of the South. Gertrude Takawira, writing in a recent issue of SEATINI Bulletin (November 15 2003), takes us back to the history of Zimbabwe. Where is the evidence to show that since 1892 foreign investments have helped the people of Zimbabwe?". . . how much has changed since 1892?" she asks.

Yes, the injection of foreign capital did help the company of Cecil John Rhodes to exploit Rhodesia's mineral wealth. It made England rich. But did it make the people of Zimbabwe rich? This is not just a rhetorical question. After a hundred years of colonialism, the people of Zimbabwe are poorer than their ancestors. The ancestors had at least land and cattle.

After the injection of FDIs since 1892, the people lost both. And the attempt to get back the land has got the present rulers of Zimbabwe into conflict with the historical owners of the FDIs, the British. A hundred years of the injection of FDIs into Rhodesia / Zimbabwe has only enslaved the people of the country.

The country is now in a trap. Without FDIs, say the IMF experts, the country cannot grow. Zimbabwe, so goes the IMF orthodoxy, must create renewed conditions for FDIs to flow into the country for "growth". Out of this growth would "trickle" development for the people of Zimbabwe. But where is the evidence for that?

It is the same old swan song of Cecil John Rhodes. But history is witness to the reality of FDIs. Bring in more FDIs, and England will become richer and Zimbabwe poorer. Bring in more FDIs and America will become richer and Argentina poorer. Argentina once used to be one of the most developed countries of the world, at par almost with England. Today, its people cannot even get access to their own savings in the banks in order to buy the basic wherewithal for life. Where is justice in the system?

Justice, says the WCC document cited above, is the central issue of development, not growth. "By asserting justice, ecological sustainability and the creation of viable communities as our goals, the ecumenical community's emphasis differs from the dominant approach, which focuses on fostering economic growth." On this basis, the ecumenical community "expressly rejects neo-liberal economics" based on the Washington Consensus and the trickle-down assumptions of "growth" strategies.

"The Washington Consensus policies," says the WCC, "have weakened democratic states, and hereby weakened citizens' rights. International financial institutions must be transformed so that bodies like the IMF and the World Bank cannot impose neo-liberal policies of financial liberalisation on sovereign states."

In the article on "The crisis in Multilateral Trading System", in the same issue of SEATINI Bulletin as cited above, S. P. Shukla, a former ambassador of India to GATT and to Geneva, says more or less the same thing on the international trading regime as what the WCC and Takawira say on the international investment regime. Where is the evidence that trade liberalisation has brought growth" or "development"? Citing the authority of the Trade and Development Report of UNCTAD for this year, Shukla gives five "downside" aspects of liberalisation of trade. These are:

- Most developing countries are still exporting resource and labour intensive products and have not yet been able to establish a dynamic nexus between exports and income growth;

    1. l. Statistics showing a considerable expansion of exports of manufacturers from developing countries are misleading in that those exports relate to products of labour-intensive, assembly-type process with little or low value added. The result is that while developing countries' share in world manufacturing exports has risen, their share of income from such exports has declined.

2. Most of the value added is appropriated by the producers of imported components and parts embodying high technology and by transnational corporations (TNCs) organising the international chains of production. In an environment of deregulation and liberalisation of trade and fierce competition among developing countries for attracting TNC investment, the former have very little bargaining power to set the terms and conditions for the latter to ensure indigenisation of the production processes. This gives rise to the danger of enclave economies with high persistent dependence on imported capital and intermediate goods.

- With a simultaneous export drive by developing countries in labour-intensive manufacturers or increased competition among them to attract TNCs for location of labour-intensive processes of international production chains, the fallacy of composition problem surfaces, leading to non-realisation or low realisation of intended gains. The competition gets transformed into a competition among labour of different countries, resulting in a downward pressure on wages.

- A few countries have seen sharp increases in their world manufacturing value-added; however, none of the countries which have rapidly liberalised trade and investment in the last two decades is in this category.

Shukla goes on to take the authors of the TDR to task for not following their own analysis, and for ignoring the lesson of history. The authors, he argues, have forgotten the essentially political economy approach of the Havana Charter, and have degenerated into banalities when it comes to the prescriptive part of the TDR. They are lost in a technicist jargon-laden approach to issues of development, issues that require an understanding of both power and economics.

So what is the way forward? The WCC suggests that alternative approaches to the reigning neo-liberal orthodoxy are required such that they allow "righteous" relations with neighbours, which is what the Washington Consensus has undermined. Takawira, for her part, has raised the question of "withdrawal from the global system" as an "imperative".

But she has wisely asked us to do our homework first before we venture into something as radical as withdrawal from the system. "It is not an easy option," she says, "but any decision should be an informed one. We need a phased, gradual and systematic withdrawal from the global system within a regional framework (Sadc). For this to be successful what is needed is:

- Up-to-date and reliable data;

- Strengthen our business sector;

- Revise the meaning of what is formal and what is informal (white = formal, black = informal?);

- Revise on what are core businesses for local consumption and what are those for export purpose;

- Define our competition policies;

- Know ourselves better and not rely on what other people from the North call us.

There is much room for original thinking in our part of the world. The Washington Consensus is dead. Much thought is needed to find alternatives to the neo-liberal agenda that our rulers are foisting on us at the behest of the IMF, the WTO and the World Bank.